

Internal Revenue Service
District Director

Department of the Treasury

Post Office Box 1680, GPO
Brooklyn, NY 11202

Date: MAR 13 1995

Person to Contact:

Contact Telephone Number:

Refer Reply to:

Employer Identification Number:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption under section 501(c)(7) of the Internal Revenue Code.

The evidence presented disclosed that you were incorporated on [REDACTED] pursuant to Section [REDACTED] of the Not-for-Profit Corporation Law of the State of [REDACTED].

The purposes for which the corporation is formed are as follows:

To create, form, and establish a street rodding club in the [REDACTED] county area; to affiliate such club with other similarly constituted clubs, associations and organizations; to further the sport of street rodding through safety, craftsmanship and intelligent use of automobiles; to organize, sponsor, and conduct social affairs, car shows, rod runs and exhibitions and excursions to such events and activities for the general enjoyment of the membership; to disseminate information to the general public concerning the history, preservation, and maintenance of street rodding automobiles; to hold, conduct, and organize meetings, discussions and social gatherings on issues related to street rodding cars; to own, operate, and maintain a membership club, club houses, club rooms, recreation center and reception and assembly rooms for the purpose of providing for the members' entertainment, sport, recreation, and amusement of all kinds; to furnish, equip, decorate, and fit up such clubs and club rooms; to promote social and friendly intercourse among the members of such club or among their guests; to promote and encourage interest in the sport of street rodding; to solicit, collect, and otherwise raise money for the purposes and objectives of the corporation; to provide and supply any and all appurtenances that may be necessary, useful, or convenient for the carrying on of sports, recreations, and diversions of all kinds and description and generally to further the sport of street rodding by all available means and methods.

The activities of the organization are as follows:

- 1- Meetings will be held monthly where possible. Club business is discussed and voted on by the members. In addition, car maintenance, safety, and laws related to street rodding are discussed. These meetings will be open to the public and are conducted by one of the club officers or members.
- 2- Car shows/swap meets: These events are held to display members cars, meet members of other street rod clubs and answer questions from the general public. Trophies are given out for best in class. These events will normally be held in the spring and fall of each year.
- 3- Dance: There is an annual dinner dance held for the members and their spouses which is designed to promote a social and friendly time for all.

Nonmembers (the public) are welcomed to both meetings and shows. The evidence presented in Application 1024, Schedule D, item 3c, shows 30 percent of gross receipts come from nonmembers.

Section 501(c)(7) of the Code provides exemption to clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

In addition, Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public Law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. Thus a social club may receive investment income up to the full 35 percent amount of gross receipts. If a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

Revenue Ruling 55-149, 1966-1 C.B. 146 holds that a social club is not exempt from Federal income tax as an organization described in section 501(c)(7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments which it owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for the club.

Rev. Rul. 60-324, C.B. 1960-2, 173 and Rev. Rul. 69-219, C.B. 1969-1, 153 point out that where a club makes its facilities available to the general public to a substantial degree, the club is not operated exclusively for pleasure, recreation, or other non-profitable purposes.

Rev. Rul. 56-475, C.B. 1956-2, 308 held that an organization formed for the purpose of promoting and fostering the appreciation and techniques of the operation of stock cars and which conducts stock car racing events sponsored by community organizations under agreements whereby a certain portion of the profits is received by the organization for payment of expenses and prizes to members who participate in the races does not qualify for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code of 1954.

Rev. Rul. 65-63, C.B. 1965-1 240 held that a nonprofit organization which, in conducting sports car events, for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising, does not qualify for exemption as a club organized and operated exclusively for pleasure, recreation, and other non-profitable purposes under section 501(c)(7) of the Internal Revenue Code of 1954.

Since the evidence submitted in the Form 1024 application shows that the organization exceeded substantially the 15 percent of gross income allowance set by Public Law 94-558 for nonmember income and permits general public participation to the degree indicated, accordingly we conclude that the organization does not meet the requirements for exempt status under section 501(c)(7) of the Internal Revenue Code. We propose to deny your request for exemption under that section.

Accordingly, we conclude that you do not meet the requirements for exempt status under section 501(c)(7) of the Code and propose to deny your request for exemption under that section.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completion.

If we do not hear from you within that time, this determination will become final.

Sincerely yours //


District Director

Enclosure: Publication 892